GREEN FUNDS: AN INNOVATIVE APPROACH TO CSR

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Abstract

How much money should a company spend on corporate social responsibility (CSR)? What are the sources of funds to carry out corporate social responsibility? These questions show the urge to spend money to become socially responsible. Corporate social responsibility includes various activities which exercise positive impact on society. This paper argues that corporate social responsibility should not remain the sole responsibility of the government and big organizations. Investors can also be responsible for this. There should be a platform which provides flow of capital through worldwide investors to fulfil corporate social responsibility which is incorporated within the organization. It provides an opportunity for investors to invest in social projects by creating businesses that are profitable, but at the same time have a positive social impact. It broadens the view of corporate shareholders, management, organizations as well as of the capital market. There can be an investment avenue that would be socially responsible. It contributes not only to economic returns but also to social and economic development. This study makes an effort towards the introduction of a kind of fund which is beneficial in many aspects to investors, environment and the economy as a whole. That means a creative fund having the basic features of 'Good Dividend Funds' along with providing a scope to the company to fulfil its social responsibility towards all 3 P's, i.e. Profit, People and Planet.

Introduction

The International Organization for Standardization, known as ISO, strategic advisory group on CSR describes it as "a balanced approach for organizations to address economic, social and environmental issues in a way that aims to benefit people, communities and society."

CSR includes consideration of such issues as:

- Human rights
- Workplace and employee issues, including occupational health and safety
- Unfair business practices
- Organizational governance
- Environmental aspects
- Marketplace and consumer issues
- Community involvement
- Social development (Denis Leonard and Rodney McAdam)

Funding of CSR

Finance is grease to economy. As such, it can also affect the sustainability and social responsibility of the firm. For this, financial industry is considered as a platform to generate finance for sustainable development and to makes the world a better place to live in.

Socially responsible investment and shareholder advocacy would promote socially and environmentally desirable activities.

CSR evolution is divided into four different phases and funds are arranged according to these. In the first phase, spanning the pre-industrial period (1850-1914), the main drivers of CSR were wealthy merchants. They fulfilled their social responsibility through charity and philanthropy. In the second phase (1914-1960), during the Independence movement, Mahatma Gandhi introduced the idea of "trusteeship." According to this idea, Indian industrialists had to contribute for the benefit of common people. In the third phase (1960-1980), public sector undertakings took the front seat in the progress of the society. In the fourth phase (1980 onwards), Indian companies pursued this goal and incorporated CSR into a sustainable business strategy (Chahoud).

Why is it that funds for CSR are available only out of profits and through donations, charities and government funding, not through investors. This paper emphasizes that there should be a platform which is incorporated within the organization which provides a flow of capital through worldwide investors to fulfil corporate social responsibility.

It is often said that there should be a market just like the capital market which provides an opportunity to invest in the activities of the CSR. That market may be known as Social Capital Market (SCM) and the avenues available in this market may be known as green funds/social investment/socially responsible investment (SRI).

What the Green Funds Mean for Business

What exactly is green or sustainable investing? Different authors give different definitions. For example, Burkenholler defines it in the following way:

Green funding refers to the funding of a project or business that is considered environmentally sustainable. Funding can come from private sources or government sources and can be in the form of loans or other types of debt, equity or grants. Green funding is often focused on goals beyond financial returns, seeking both financial returns and environmental benefits.

The fundamental fact that the market now attaches economic value to social impact, forces companies to rethink many things: marketing, recruiting, innovation, philanthropy, partnerships, business models, etc. The basic features of green funds given by Jason Saul are stated below:

- An economic return for doing good: Corporations are known for seeking profit. Now the time has changed. The dual role of corporations is to earn profits as well as to solve social problems. But the main problem is about funding. This problem can be solved if investors are more inclined to invest in corporations to do good for society. They would be interested only if they get an economic return for solving these problems.
- Social strategies must become business strategies: Traditional approaches like philanthropy, volunteering, and environmental compliance are meant for short-term development only. Our country's need is

sustainable development. For this, it is necessary that companies create new models for social engagement, specifically designed to produce business results.

- Measurement must become a core competence: Green funds link the concept of profit with social impact. For channeling more money to improve social problems, positive results are required. To prove the results, evaluation is necessary. Investors would be interested in green funds only when their investments offer economic as well as social values.
- Greed has turned into good through green funds: It is okay if we are expecting some return in monetary terms for doing good. Green funds would be considered as innovative solutions to social challenges such as hunger, illiteracy, disease, climate change and poverty. As Doyle Jones says "The market that intersects at money and meaning is growing. There is a flood of money that wants to move towards meaning."

In recent decades, India has adopted the policy of privatization and disinvestment. Due to these policies major industrial sectors as well as many fields of social welfare have been transferred to private hands. Private sectors often suffer from lack of financial resources for providing solutions to social challenges or to fulfill corporate social responsibility. This calls for developing a platform through which funds can be raised to fulfill corporate social responsibility. The platform may be known as social capital market.

An Effort towards Innovative Approach for CSR

The concept of green funds can definitely take financial market to new heights along with social good. That could be the most desirable thing for a developing country like India. Some funds can be planned by the experts of finance and of environment in a combined manner.

Some examples of green funds can be:

- Utilizing of capital in the development of organic farms
- Raising money from investors to fund immunizations for children (as done in Japan)
- Investing funds in teak plantation
- Raising money for investing in alternative source of energy
- Initiating educational programs/activities through green funds

Review of Literature

Nowadays, CSR has turned out to be an attractive field of learning for academicians and practitioners. Yet, an absolute definition of CSR is, indeed, hard to set down, and opinions differ.

M. O. Oketch (2005) defined CSR as a function that transcends, but involves making profits, developing job opportunities and manufacturing goods and services. A. B. Carroll considered a four-part conceptualization of CSR that incorporated economic, legal, ethical and philanthropic elements. Carroll's model expresses that all business responsibilities depend upon economic responsibility, which comprises of maximizing profits and maintaining a strong competitive position. Legal responsibilities include the company's fulfillment of laws and regulations while doing business. Ethical responsibilities represent societal standards, expectations and norms that have not been included in the law directly.

In his classic and provocative essay Milton Friedman (1970) argued that the responsibility of corporations is "to conduct the business in accord with shareholders' desires, which generally will be able to make as much money as possible while conforming to the basic rules of society, both those embodied in law and those embodied in ethical custom."[1]

Sirkku Hellsten and Chris Mallin in their work Are 'Ethical' or 'Socially Responsible' Investments Socially Responsible? (2006) studied social responsibility from three points of views, i.e. philosophical, moral and practical. They focused on various UK institutional investors like The Ethical Investment Cooperative, Profit with Principles, Ethical Investment, Barchester Green Investment, and Ethical Partnership Limited. These companies advice financial planning in a way which promotes moral and ethical values, and investors get a return on their investment by supporting companies that provide benefits to society and to the environment. Investors in international capital markets have become more involved and expect screening from corporations. That is why the value of UK Ethical Funds increased substantially and it was considered as a statement of investment principle by pension fund trustees through which the extent of social, environmental and ethical considerations are taken into account in the selection, retention and realization of investments. Despite financial market and corporations, Citizens' action is also entailed bringing change in society. For example, after the introduction of WHO/UNI-CEF, one and a half million babies die every year because of the formula feeding of Nestle Infant Food Industry.

Objectives of Research Work

The objective of this study is to suggest a platform for generating funds through various environment-friendly avenues (may be known as green funds), i.e. to help companies and investors to fulfill their corporate social responsibility, while they get better returns on their investment.

Methodology

The study is based on a comprehensive literature review. Secondary data are collected from organizations, reports, other documents and websites.

Findings

Companies voluntarily contribute a large sum of money to promote a better society and a clean environment, i.e. to fulfill corporate social responsibility. However, what is spent is inadequate; the business sector requires more financial resources for these activities. Funds available for these activities are limited. It will be necessary to develop ways of raising the financial resources as other countries have done. For this even investors should understand the social and economic importance of green funds. Green funds with right incentives can increase the total resources required to meet the financial needs of organizations to fulfil their CSR. These funds would contribute directly to the CSR undertaken by organizations.

Generating green funds for CSR requires creative and innovative thinking. There can be a fund which contributes to both companies as well as investors. An effective approach to CSR can enhance brand and company reputation by improving efficiency and reducing the risk of business.

1. Friedman concludes the essay by quoting from Capitalism and Freedom (1962, p. 133): "there is one and only one social responsibility of business-to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."

Suggestions

Social capital market through green funds could make noteworthy contributions in the direction of the sustainable development of our country. Taking into consideration the limitations of the companies in their CSR activities, we can make some recommendations:

- To fulfil corporate social responsibility, organizations usually invest only part of their profits, not their own capital. Therefore, new financial resources must be developed.
- Introduce a kind of fund which is beneficial to investors, environment and the economy as a whole, and encourage private individuals to provide capital for CSR through green funds.
- Investors must receive tax benefits along with the dividend out of profits.
- Public-private partnership should be developed with proper controls and methodology for the optimum utilization of resources.
- CSR activities should be widened specially in backward regions/states.
- Green funds should be such that they satisfy the investors' various preferences.
- A social capital market must be developed with a variety of specialized players using innovative means and financial instruments, such as those used in capital market, to enhance the use of the different funds and tailor them to the needs of organizations as well as of investors.

Conclusion

As per today's scenario, society makes more and more demands on organizations in the direction of defining their social responsibility. On the other hand, organizations are also aware that they have to contribute toward these demands. Funds are important to fulfil these responsibilities. This paper attempted to present an innovative way to arrange funds to fulfil corporate social responsibility. Capital market can play an important role in promoting CSR. This paper has investigated how companies can raise the funds through various investment avenues like green funds, social investment, socially responsible investment (SRI), etc. to fulfil its social responsibility.

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